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No. 07-1438

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IN THE
Supreme Court of the United States

WESTBOUND RECORDS, INC.,

Petitioner,

v.

JUSTIN COMBS PUBLISHING and BAD BOY ENTERTAINMENT, individually and doing business as Bad Boy Records; UNIVERSAL RECORDS, a division of UMG Recordings, Inc.; UMG RECORDINGS, INC.; BAD BOY LLC,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

REPLY BRIEF OF PETITIONER

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REPLY BRIEF OF PETITIONER

This case highlights the need for additional guidance for lower courts in overseeing punitive damages awards under substantive due process.

Petitioner/Westbound holds a copyright in the sound recording "Singing in the Morning." That copyright, which is protected under New York law, allows Westbound to authorize or not authorize the use of the protected sound recording in a musical composition. *Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792 (6th Cir. 2005).

Respondents/Defendants used Petitioner's sound recording in their own musical composition and sound recording, "Ready to Die" through a process of digital copying ("sampling"). Respondents were well aware of their legal obligation to secure "clearance" under such circumstances. J.A. 4346-4348.[1] Prior to their use of Petitioner's protected work, Respondents had unsuccessfully sought approval for use of a work owned by Jimi Hendrix. Respondents accepted that rejection, knowing their legal obligations.

Under self-perceived time pressure to conclude work on "Ready to Die," to be released on

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[1] J.A. refers to the Joint Appendix in the Court of Appeals; Pet. App. refers to the Appendix to the Petition for Writ of Certiorari; BIO refers to Respondents' Brief in Opposition.

an album also called "Ready to Die," Respondents used Petitioner's work instead. The same sample from Petitioner's sound recording was also copied in another song on the same "Ready to Die" album. J.A. 4354-57. But Respondents did not notify Petitioner or seek its approval ("clearance"). They just blew off -- knowingly, willfully, and maliciously – the legal right of Petitioner to authorize or not authorize use of its protected work and to receive royalties on terms negotiated by the parties. Under the circumstances, Respondents self-evidently did not acknowledge their use of Petitioner's work and provided no label credit, which Petitioner routinely required whenever one of its works was used. Label credit makes the public aware that Petitioner's music is being used in a song or on an album.

Petitioner is a small company with one employee, who is shared with Petitioner's sister company Bridgeport Music. Petitioner suspected this piracy and invested resources to establish its existence. When Petitioner sought to contact Respondents about their unauthorized use of Petitioner's protected intellectual property, Respondents stonewalled. They did not respond to correspondence from Petitioner that presented evidence of the unauthorized use. J.A, 265, 267, 273, 275, 2987-88. Petitioner was forced to sue, losing some claims because of statute of limitations constraints.

In the context of litigation, Respondents brazenly sought to cover up their piracy, denying its very existence in repeated discovery responses. J.A. 537, 546-47, 562-64, 572, 605, 619-20, 648. Yet, in

the opening statement at trial, Respondents changed their position 180° -- admitting that they knew all along that Petitioner's work had been sampled and without the required authorization; the issue at trial was just a matter of "how much" the damages would be. Prior to that opening statement at trial, Respondents had never admitted that "Ready to Die" included a sample from "Singing in the Morning." J.A. 2231-32, 2369-70.

The album "Ready to Die" was a huge success, with 3,271,846 copies sold as of February 2006. J.A. 509. During the pendency of the litigation, Respondents released the pirated work **again** – over the course of two years and in at least three album versions. J.A. 475, 689, 1368-76, 4090-4108. Yet again, no identification of or acknowledged credit for use of Petitioner's work was included in the re-releases – and no royalties were paid. J.A. 1354-76, 2389-90.

The jury awarded compensatory damages of $733,878, which the district court reduced by 50% (to $366,939) because Petitioner shared the damages with its sister company Bridgeport Music. Pet. App. 50-51a. The jury also awarded $3.5 million in punitive damages against the three Respondents. *Id.* at 58a.

The Court of Appeals rejected Respondents' claim that the jury verdict reflected passion and prejudice. *Id.* at 8-12a. The Court of Appeals upheld the jury verdict that Respondents' violation of

Petitioner's intellectual property was willful and that "the harm [to Petitioner] was the result of intentional malice or deceit." *Id.* at 27a. The jury spoke to voice appropriate moral outrage at Respondents' intentional, malicious, and duplicitous business practices. However, the Court of Appeals held that the jury award of a total of $3.5 million was "unconstitutionally excessive and violates due process." *Id.* at 26a. Punitive damages were capped in the range of 1:1 to 2:1 of compensatory damages.

In its details, this case is not unlike – and indeed is easier than – *TXO Production Corp. v. Alliance Resources Corp.*, 509 U.S. 443, 446 (1993), in which this Court upheld a punitive damages award of $10 million and an "actual damages" award of $19,000. The context there was purely economic -- an attempt to cloud title by frivolous lawsuits – and involved royalty income (oil and gas, not intellectual property). What was critical in *TXO* was that the behavior was "malicious and fraudulent," *id.* at 462 (plurality), "deliberate, wrongful conduct." *Id.* at 469 (Kennedy, J., concurring in part and concurring in the judgment).

In overturning the jury's verdict, as affirmed by the district court, the Court of Appeals placed a spin on the evidence that arose from its own factfinding. For example, the Court of Appeals concluded that the Petitioner "is not a financially vulnerable victim," *id.* at 28a, even though it had only one employee and was perceived *ex ante* by Respondents as a force not on a par with Jimi

Hendrix, from whom Respondents sought but were denied clearance for sampling of another song. The Court of Appeals stated that the Respondents' "refusal to use the Jimi Hendrix sample cuts both ways – it could mean that defendants actually tried to avoid copyright infringement, or it could mean, as Westbound argues, that defendants only avoided infringing copyrights owned by the powerful." *Id.* But such weighing of facts on appeal is inconsistent with this Court's admonition that jury findings of fact are owed deference under a clear error standard. *Cooper Industries, Inc. v. Leatherman Tool Group, Inc.*, 532 U.S. 424, 440 n.14 (2001). While the jury rendered a general verdict, consistency with *Cooper Industries* should require that reasonable inferences of fact be judged most favorably to the party receiving the jury verdict – absent clear error.

Similarly, the Court of Appeals ruled as a matter of law that repeated conduct only occurs when reprehensible conduct is directed at various different parties. Pet. App. 29a. It is one thing for an appellate court, exercising *de novo* review, to determine whether repeated conduct over the course of a dozen years warrants a particular award; it is quite another for an appellate court categorically to disparage a jury's verdict by concluding that what was obviously repeated conduct in the context of this set of transactions was not to be considered at all in the process of weighing overall reprehensibility.

To state these facts and the Court of Appeals' conclusions is to demonstrate that this Court needs

to set some additional parameters to better filter these punitive damages cases under substantive due process.

This case has nothing in common with cases such as *BMW v. Gore*, 517 U.S. 559 (1995). *BMW* made clear that substantive due process review is targeted only at punitive awards that are "grossly excessive" in relation to the state's "legitimate interests in punishing unlawful conduct and deterring its repetition." *Id.* at 562, 568. The non-disclosure of the pre-delivery damage in *BMW* amounted to less than 3% of the car's suggested retail price – about $4,000 in actual damages. There was no evidence of bad faith, and no evidence of "deliberate false statements, acts of affirmative misconduct, or concealment of evidence of improper motive." *Id.* at 579. While the Court accepted the jury finding that defendant had a duty to disclose the pre-delivery damage as a "material" fact, *id.* at 579-80, the Court emphasized the difference between "omission of a material fact" and a "deliberate false statement," *id.* at 580, concluding that there was insufficient "egregiously improper conduct ... to warrant imposition of a $2 million exemplary damages award." *Id.* The ratio of punitive to compensatory damages was 500:1, which the Court characterized as "breathtaking." *Id.* at 583.

Nothing like a 500:1 ratio (*BMW*) or a 145:1 ratio (*State Farm Mutual Automobile Ins. Co. v. Campbell*, 538 U.S. 408, 425 (2003)) is involved in this case. At most, the ratio in the jury verdict is

9.5:1 and possibly as low as 3.5:1 – all in single digits. This case involves intentional and malicious conduct by Respondents that was "hard to detect," *BMW*, 517 U.S. at 582, directly related to Petitioner's injury (and, therefore, unlike the conduct in *State Farm*, 538 U.S. at 422).

The Court of Appeals in this case[2] reduced a single-digit ratio to a lower single-digit ratio in the face of intentionally malicious conduct and in the absence of any finding of passion or prejudice. Such micromanagement demonstrates the need for additional filters in the Court's punitive damages jurisprudence. This is well reflected by the Court of Appeals' continual reference in this case to "excessive" punitive damages – but never referring to "grossly excessive" or some similar terminology.

In *Exxon Shipping Co. v. Baker*, 2008 U.S. LEXIS 5263, in a thoughtful and comprehensive consideration of punitive damages in the context of the federal maritime common law, this Court surveyed the area in detail; a similar analysis is warranted in the more restrained constitutional context, where considerations of judicial oversight differ considerably from the common law context. This case provides an excellent vehicle for this needed additional clarification.

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[2] Other appellate courts have also reduced single-digit ratios to lower single-digit ratios. Some appellate courts have declined to do so. See Petition for Writ of Certiorari at 21-24.

In *Exxon Shipping*, the Court acknowledged that "the most recent studies tend to undercut much of" the early criticism of punitive damages, with a "survey of the literature reveal[ing] that discretion to award punitive damages has not mass-produced runaway awards." Slip. Op. at 24. As in the case of non-pecuniary loss (pain and suffering), where unexplained variation in awards is substantial, see Bovbjerg, Sloan, & Blumstein, *Valuing Life and Limb in Tort: Scheduling "Pain and Suffering,"* 83 NW. U. L. REV. 908, 923 (1989), the "real problem" in the area of punitive damage awards is the "stark unpredictability" of the "outlier cases." *Exxon Shipping*, Slip. Op. at 26. This conclusion reaffirms this Court's initial concern – the one that led it into developing its substantive due process jurisprudence of punitive damages – that judicial intervention is needed to deal with "punitive damages that 'run wild.'" *Pacific Mutual Life Ins. Co. v. Haslip*, 499 U.S. 1, 17 (1991).

This Court's substantive due process jurisprudence of punitive damages has attempted to facilitate "progress from fiat to rationality," assuring that "[e]lements of whim and caprice do not predominate" in jury decisionmaking regarding punitive damages. *Id* at 40 (Kennedy, J., concurring). The now-familiar guideposts embraced in *BMW* and amplified in *State Farm* were designed to impose "meaningful, law-like restraints on jury excess," forestalling "bias, passion, or prejudice on the part of the jury" in favor of an examination of "a rational concern for deterrence and retribution."

TXO Production Corp. v. Alliance Resources Corp., 509 U.S. 443, 467 (1993)(Kennedy, J., concurring in part and concurring in the judgment). That is, the Court must focus, to some extent, on the size of the award – as evidence of bias, passion, or prejudice and to "ensure that the measure of punishment is both reasonable and proportionate to the amount of the harm to the plaintiff and to the general damages recovered." *State Farm*, 538 U.S. at 426. But the most critical focus is on the "reasons" the jury embraces for imposing a punitive damages award. *TXO*, 509 U.S. at 467 (Kennedy, J., concurring in part and concurring in the judgment).

In this regard, this Court has stated that the reprehensibility of a defendant's conduct is "the most important indicium of the reasonableness of a punitive damages award." *BMW*, 517 U.S. at 575. But factors such as reprehensibility are conventionally determined by factfinders in a common-law process, and the Court has rejected a challenge to the "common-law method for assessing punitive damages." *Haslip*, 499 U.S. at 17. In a common-law process, some variation in jury awards is inevitable, but such "nonuniformity cannot be equated with constitutional infirmity." *Id.* at 41 (Kennedy, J., concurring in the judgment). Therefore, jury judgments regarding reprehensibility may routinely show variability in awards – *i.e.*, within single-digit ratios for punitive to compensatory damages. It is only the relatively few outlier cases whose lack of consistency in

punitive damages awards led this Court to constitutionalize the law of punitive damages.

In the common-law context of *Exxon Shipping*, the concern with outliers led the Court to embrace quantified guidelines as an antidote to case-by-case arbitrariness. Slip Op. at 32. This case provides a vehicle for the Court to provide a comparable filter in the substantive due process context – one that structures decision-making so as to remain faithful to the original ideal, namely the concern with outlier cases in which punitive damages awards are "grossly excessive" or in which the legitimacy of the process of decision-making is called into question (*e.g.*, when passion or prejudice is present).

In determining the contours of the guidelines to adopt in a common-law context, this Court has placed great emphasis on the significance of intentional or malicious conduct, distinguishing it from reckless conduct in terms of reprehensibility. *Id.* at 40. And, within the world of intentional or malicious conduct, the Court in *Exxon Shipping* considered as the "most egregious conduct" that which included "malicious behavior ... carried on for the purpose of increasing a tortfeasor's financial gain." *Id.* at 37. This reconfirms the primacy of intentional and malicious conduct – especially such conduct that is not "profitless to the tortfeasor," *id.* at 38, but is aimed (as herein) at capturing a "lucrative stream of royalties," *TXO*, 509 U.S. at 462.

To remain faithful to the very rationale for constitutionalizing under substantive due process the law of punitive damages, courts should not routinely step into the punitive damages arena wearing their constitutional hat in the absence of a finding that a case is an "outlier"– that the punitive damages award is "grossly excessive." To achieve that objective, the Certiorari Petition suggested embracing as binding doctrine the framework of the plurality in *TXO*, 509 U.S. at 457, that a punitive damages judgment based on fair procedures "is entitled to a strong presumption of validity." This "presumption of validity" was also embraced by Justice Breyer in his concurrence in *BMW*. 517 U.S. at 586-87. That concurrence was joined by Justices O'Connor and Souter and referred to an analogous position advocated in a concurring opinion by Justice Kennedy. *Haslip*, 499 U.S. at 40-42.

This is how the proposed presumption would work. A rebuttable presumption would attach to a punitive damages award that bore a ratio of less than 10:1 to the compensatory award, provided (i) that there is no reason to question the process through which a punitive award is reached (*e.g.*, no passion or prejudice is present) and (ii) that the conduct subject to punitive damages was intentionally malicious (not just negligent or even reckless). This structure would reinforce that only "grossly excessive" outlier punitive awards run afoul of substantive due process, and it would avoid the spectacle of appellate courts micromanaging punitive

damage awards in the absence of some strong reason for doing so.

The presumption accords with the rationale for the Court's entry into the field.

The passion or prejudice filter addresses the procedural dimension of the Court's punitive damages jurisprudence. Where evidence of passion or prejudice exists, no presumption of validity is warranted. Similarly, where intentionally malicious conduct is absent or where, if present, it involves unrelated or extraterritorial conduct, then no presumption of validity exists. Such cases warrant the full-blown appellate analysis under the *BMW* guideposts as refined in *State Farm*. The Court has acknowledged that reprehensibility is the most critical indicator of an appropriate punitive damages award, and the Court has drawn a distinction between intentionally malicious and other (such as reckless) conduct in overturning large punitive awards.

The less-than-10:1 ratio of punitive to compensatory damages filter is designed to provide a rebuttable presumption that a punitive award is not so excessive as to violate constitutional due process standards, absent special circumstances. The Court signaled in *State Farm* that a punitive-to-compensatory ratio beyond single digits is presumptively suspicious; this proposed approach provides symmetry. When the punitive-to-compensatory damage ratio is in single digits, it is

highly likely that "the measure of punishment is both reasonable and proportionate to the amount of the harm to the plaintiff and to the general damages recovered." *State Farm*, 538 U.S. at 426.

Respondents mistakenly assert that this proposed approach ignores the other reprehensibility factors described in *State Farm*. BIO at 15, 19. Respondents also mistakenly assert that the proposal is "fatally flawed" because it does not "consider the location of misconduct on the spectrum of blameworthiness." *Id.* at 24.

To the contrary, the proposal gives firm endorsement to the primacy of intentional reprehensible conduct in the evaluation of punitive awards. This accords with the notion of punishment. It also gives effect to the concern about fair procedures, which also characterize traditional concerns regarding punishment. And, far from ignoring the other reprehensibility factors or the comparable punishment guidepost, the proposed approach allows for their consideration but only when defendants can demonstrate that something about those other characteristics of a punitive award can result in a fair characterization of an award as "grossly excessive," not just "excessive." And, such a channeled analytical structure would reduce the likelihood that courts remain bogged down in micromanaging jury awards and reserve judicial intervention to address the "real problem" of punitive awards – coping with the "stark unpredictability" of the "outlier cases [that] subject

defendants to punitive damages that dwarf corresponding compensatories." *Exxon Shipping*, Slip Op. at 26.

CONCLUSION

The Petition for Writ of Certiorari should be granted.

Respectfully submitted,

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